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GENEVA FOR CSCEDL; VIENNA FOR MBFRDEL; CINCEUR FOR POLAD

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SUBJECT: ECONOMIC PLATFORMS OF THE CANDIDATES AND
THEIR IMPLICATIONS

REF: A. PARIS 10586; B. PARIS 10827

1. SUMMARY. ECONOMIC PLATFORMS OF TWO SECOND-ROUND CANDIDATES ABOUND IN WELTER OF DETAILS ON WIDE RANGE OF ISSUES. WHILE RIGHT-CENTER CANDIDATE GISCARD D'ESTAING PROPOSES MEASURES PROMOTING GREATER SOCIAL JUSTICE, FRANCOIS MITTERRAND, UNITED LEFT CANDIDATE, HAS TRIED TO OVERCOME HIS REPUTATION FOR WEAKNESS IN ECONOMICS, AND HAS PLACED PRONOUNCED STRESS ON FINANCIAL RESPONSIBILITY. HIS ARE THE MOST DETAILED PROPOSALS FOR FUTURE. HE ALSO EXPLOITS RESPONSIBILITY OF HIS RIVAL FOR PAST AND PRESENT ECONOMIC PROBLEMS. WHILE LEFWARD BENT OF MITTERRAND'S PLATFORM IS PRONOUNCED (NATIONALIZATIONS, GREATER AND FASTER SOCIAL BENEFITS), IT IS CLEAR THAT BOTH CANDIDATES WILL BE CONTESTING HARD FOR PIVOTAL VOTES IN POLITICAL CENTER. CROSS-READING OF THE TWO PLATFORMS ON INTERNATIONAL ECONOMIC ISSUES SHOWS MITTERRAND POSING AS ADVOCATE OF STRONG, APPRECIATED FRANC, AND GISCARD AS ARDENT DEFENDER OF FRENCH INTERESTS IN MONETARY AND TRADE AREAS. SHADOW OF NATIONALIZATIONS, INCLUDING TWO MAJOR U.S. INDUSTRIAL GROUPS IN FRANCE, WAS, OF COURSE, HANDICAP MITTERRAND HAD TO ACCEPT TO HOLD COMMUNIST SUPPORT. THIS TELEGRAM WILL DISCUSS THE MAJOR ECONOMIC PROPOSALS OF THE TWO CANDIDATES AND WHAT THEY IMPLY. SINCE MITTERRAND PROPOSALS REPRESENT GREATEST DEGREE
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OF CHANGE, THEY WILL OCCUPY GREATER PART OF THIS
MESSAGE. END SUMMARY.

2. MITTERRAND'S PLATFORM APPEARS TO BE AMALGAM OF
"COMMON PROGRAM" WORKED OUT WITH COMMUNISTS AND LEFT-RADICALS, MODERATING INFLUENCE OF FORMER PREMIER MENDES-FRANCE, IDEAS OF MITTERRAND'S LABOR SUPPORTERS ON
WORKER ROLE IN MANAGEMENT, TECHNICAL COMPETENCE OF

HIS STAFF OF E.N.A. AND POLYTECHNIQUE GRADUATES, AND
VERY STRONG SENSE OF NEED TO ATTRACT CENTRIST VOTERS.
PLATFORM CONTAINS BOTH TIMETABLES FOR SPECIFIC ACTIONS
AND GENERAL POLICIES. MAJOR PROPOSALS INCLUDE:

A. SOCIAL MEASURES: DURING FIRST SIX MONTHS,
MINIMUM WAGE (SMIC) WOULD BE RAISED TO 1200 FRANCS
PER MONTH, OLD-AGE PENSIONS INCREASED 50 PERCENT,
AND MEDICAL INSURANCE COVERAGE INCREASED TO 100 PER-
CENT. CIVIL SERVANTS' PAY WOULD BE RAISED. THE
MINIMUM 7 PERCENT VALUE-ADDED TAX (TVA) WOULD BE
REMOVED FROM BASIC FOOD PRODUCTS, ABOUT HALF THE
ITEMS NOW TAXED AT THAT RATE. YEAR FOLLOWING WOULD
SEE INSTITUTION OF 40-HOUR WEEK, FIFTH WEEK OF PAID
VACATION, AND RETIREMENT AT 60. INCOME-TAX RATE
SCHEDULE WOULD BE ADJUSTED, AND NEW TAXES WOULD BE
PLACED ON CORPORATE INCOMES, INHERITANCES (TO BE
TAXED ACCORDING TO WEALTH OF RECIPIENT), LAND, AND
LARGE FORTUNES.

B. MEETING THE COST AND PROBLEM OF INFLATION:
WELFARE MEASURES AND NATIONALIZATIONS (SEE BELOW)
WOULD COST MONEY, AND DEFICIT SPENDING WOULD HARDLY BE

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POPULAR POLICY IN FACE OF PRESENT RAPID SERIOUS INFLATION. MITTERRAND TRIES TO DISPEL THIS DILEMMA IN NUMBER OF WAYS. DEFENSIVELY, HE CLAIMS HIS FIRST SIX-MONTH PROGRAM, COSTED AT SOME 10 BILLION FRANCS, CAN BE FINANCED (EXCEPT FOR EMPLOYER-BORNE MINIMUM-WAGE INCREASE) FROM "INFLATIONARY BONUS" ON CURRENT REVENUES. HE WOULD ALSO FREEZE PRICES FOR THREE TO SIX MONTHS. HE ARGUES INFLATION IS PRINCIPALLY DUE TO MALDISTRIBUTION OF INCOME, AND TO BOTTLENECKS IN SUPPLY. SOCIAL MEASURES AND TAX REFORM ARE DESIGNED TO DEAL WITH THE FIRST, WHILE RECHANNELLING OF SAVINGS THROUGH 10 BILLION FRANC GOVERNMENT BOND ISSUE, PLUS RENOVATED INDUSTRIAL POLICY, ARE DESIGNED TO ELIMINATE THE SECOND. FINALLY, BOTH MITTERRAND AND COMMUNIST PARTY SECRETARY MARCHAIS HAVE STATED UNEQUIVOCALLY

THAT A LEFT GOVERNMENT'S EXPENDITURES, EVEN IN ACCOMPLISHMENT OF ITS STATED GOALS, CANNOT EXCEED ITS FINANCIAL CAPACITIES. MITTERRAND SAYS HE WOULD NOT PERMIT OVER-ALL DEMAND TO EXCEED SUPPLY.

C. RESTRUCTURING DOMESTIC ECONOMY. MITTERRAND'S PROPOSALS HERE ARE MORE INNOVATIVE, BUT ALSO MORE "RADICAL" THAN GISCARD'S, AND PEPPERED WITH INTERNAL CONTRADICTIONS. SOME EXAMPLES: (1) TO INCREASE WORKER PARTICIPATION IN MANAGEMENT, HE ADVOCATES "AUTONOMY" OF DECISION IN BOTH PUBLICLY AND PRIVATELY OWNED ENTERPRISES AND -- GENERALLY SPEAKING -- GREATER DECENTRALIZATION OF GOVERNMENT ECONOMIC DECISION-MAKING. CONVERSELY, THE LEFT PLATFORM WOULD STRENGTHEN PLANNING MECHANISM AND THUS, BY IMPLICATION, AUGMENT CENTRAL GOVERNMENT INFLUENCE OVER FRENCH ECONOMIC LIFE. IN SAME VEIN WOULD BE GOVERNMENT-LABOR-MANAGEMENT CONFERENCE TO PROMOTE REVISION OF WAGE LIMITED OFFICIAL USE

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SCALES AND GREATER JOB SECURITY. (2) INTERNAL SOCIALIST PARTY PAPER STATES INTENTION TO CONTROL CORPORATE INVESTMENT BY TAXATION POLICIES THAT WOULD LIMIT CAPACITY FOR SELF-FINANCING. GIVEN PROPOSED NATIONALIZATION OF ALL BANKING FACILITIES, THIS COULD LEAD TO GOVERNMENT DIRECTION OF MAJOR INVESTMENTS. ON OTHER HAND, PRESENT PUBLIC POSTURE SAYS GOVERNMENT INTERVENTION WOULD BE ON VERY SELECTIVE BASIS, WITH USE OF INDUSTRIAL POLICY TOOLS LIMITED TO "INCITEMENT AND COORDINATION". (3) TEN-BILLION FRANC PRICE-INDEXED GOVERNMENT BOND ISSUE WOULD ATTEMPT TO CHANNEL SAVINGS FROM REAL ESTATE, ART, GOLD, ETC., INTO INVESTMENTS TO ENABLE FRANCE TO UNCLOG POTENTIAL SUPPLY BOTTLENECKS, POSSIBLY THROUGH SOME KIND OF "NATIONAL INVESTMENT BANK".

D. NATIONALIZATION OF NINE MAJOR INDUSTRIAL COMPANIES (INCLUDING FRENCH HOLDINGS OF ITT AND HONEYWELL), LARGEST FRENCH OIL COMPANY AND ALL BANKS AND INSURANCE COMPANIES REMAINING IN PRIVATE HANDS IS MOST CONTROVERSIAL PORTION OF MITTERRAND'S PLATFORM.. HE NOTES MANY INDUSTRIAL AND FINANCIAL HOLDINGS ARE ALREADY NATIONALIZED AND DEFENDS PROPOSAL BY EMPHASIZING MONOPOLY POSITION AND GREAT IMPACT ON NATIONAL ECONOMY OF COMPANIES INVOLVED. BOTH HE AND COMMUNIST LEADER MARCHAIS STRESS THAT NATIONALIZATION IS "NOT A RELIGION" AND WOULD NOT BE CARRIED FURTHER FOR OWN SAKE. MITTERRAND SAYS MARKET ECONOMY, INCLUDING STOCK EXCHANGE, IS HERE TO STAY FOR PRESENT GENERATION.

INDEED, HE SAYS HE WOULD WELCOME INCREASED IMPORTANCE OF PARIS AS A FINANCIAL CENTER. BOTH MITTERRAND AND MARCHAIS HAVE NOT MUTED THEIR CRITICISMS OF MULTINATIONAL CORPORATIONS AND THEIR EFFECT ON FRENCH ECONOMIC "INDEPENDENCE". WHILE MITTERRAND HAS LIMITED HIS PROPOSALS TO ENCOURAGING "EUROPEAN COUNTER-BALANCE" TO LARGELY U.S.-OWNED MULTINATIONALS, IT IS LIKELY THAT EXISTING FRENCH CONTROLS ON DIRECT FOREIGN INVESTMENTS WOULD BE APPLIED MORE SEVERELY THAN THEY HAVE BEEN SINCE 1970.

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E. INTERNATIONAL MONETARY AND ECONOMIC POLICY. IRONICALLY, IT IS LEFTIST CANDIDATE WHO HAS STRESSED THE NEED FOR STRONG FRANC, HIGHLIGHTING ITS SUBSTANTIAL DEPRECIATION AGAINST DEUTSCHEMARK SINCE 1968. HE HAS CRITICIZED TRADITIONAL FRENCH POLICY OF UNDER-VALUING FRANC FOR EXPORT PURPOSES AND PROMISES GRADUAL REVALUATION AND RETURN OF FRANC TO EUROPEAN "SNAKE". DRAWING ON YET UNRELEASED REPORT OF PLANNING COMMISSION, HE PROJECTS L974 TRADE DEFICIT AT 20 BILLION FRANCS AND PROPOSES TO REDUCE IT TO 15 BILLION

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THROUGH INCREASED PETROLEUM ECONOMIES, HIGHER TAXES
ON LUXURY IMPORTS, AND REINFORCED EXCHANGE CONTROLS
AGAINST "SPECULATIVE PLACEMENTS" OVERSEAS. MITTERRAND
FAVORS FIXED PARITIES AND A "MORE REALISTIC" GOLD
PRICE, BUT APPROVES GOLD'S DECLINING ROLE IN INTERNA-
TIONAL MONETARY SYSTEM AND REGRETS SDRS STILL TIED
TO METAL. ON TRADE POLICY, HE ADVOCATES CREDITS
AND OTHER UNSPECIFIED ASSISTANCE TO INCREASE FRENCH
EXPORTS AND OPPOSES CUTS IN EC COMMON EXTERNAL TARIFF.
HE HAS PROPOSED MULTINATIONAL AGREEMENTS COVERING
PRODUCTION, CONSUMPTION AND PRICES OF PETROLEUM, BUT

ALSO BILATERAL AGREEMENTS WITH PETROLEUM PRODUCERS, DENOMINATED IN FRANCS, PRESUMABLY TIED TO PURCHASES OR INVESTMENTS IN FRANCS BY PRODUCERS. ON AGRICULTURAL POLICY, MITTERRAND PROPOSES THAT EXISTING EUROPEAN FARM PRICE SUPPORT PROGRAM BE GRADUALLY REPLACED BY DIRECT ASSISTANCE TO FARMERS.

COMMENT: THE IMPORT AND SUCCESS OF MITTERRAND'S PROPOSALS, IF HE IS ELECTED, WILL DEPEND ON A NUMBER OF FACTORS, INCLUDING POLITICAL ONES DISCUSSED IN REFTEL A. SUCH MEASURES AS NATIONALIZATION, THE L0 BILLION FRANC LOAN, NEW TAXES, EARLIER RETIREMENT AND THE FIFTH VACATION WEEK WOULD REQUIRE PARLIAMENTARY APPROVAL. MITTERRAND WOULD BE NEITHER ABLE, NOR INDEED VERY WILLING TO TRY, TO PUSH MORE CONTROVERSIAL ASPECTS THROUGH PARLIAMENT BEFORE NEW ELECTIONS, FOR WHICH HE WOULD WISH TO AVOID "RADICAL" IMAGE. OTHER MEASURES COULD BE IMPLEMENTED BY ADMINISTRATIVE ACTION. BEYOND HIS NEED FOR PARLIAMENTARY COOPERATION, MITTERRAND'S MAIN PROBLEMS WOULD BE INFLATION, AND EVEN MORE IMPORTANT, CONFIDENCE.

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MITTERRAND'S OPPONENTS ACCUSE HIM OF GROSSLY UNDERESTIMATING COST OF HIS PROGRAMS, AND RELATIVE EASE WITH WHICH HE BELIEVES HE CAN FINANCE THEM. ECONOMIC DAILY AGEFI HAS PRESENTED CALCULATION SHOWING THE ENTIRE L8-MONTH MITTERRAND PROGRAM AS COSTING NO LESS THAN 75 BILLION FRANCS IN TWO YEARS, OR ABOUT ONE-SIXTH OF WHAT TOTAL GOVERNMENT BUDGET MIGHT OTHERWISE BE FOR THAT PERIOD. IF GOVERNMENT REVENUES SHOULD FALL SHORT OF COVERING SIGNIFICANT PORTION OF PROGRAM, OR IF NEW DEMAND CREATED BY WELFARE MEASURES SHOULD SIGNIFICANTLY EXCEED SUPPLY IN SHORT RUN, MITTERRAND WOULD FACE CHOICE BETWEEN SLOWING DOWN HIS PROGRAM AND LOSING SUPPORT HE NEEDS AMONG LEFT WING VOTERS FOR HIS OWN SOCIALIST PARTY IN CASE OF NEW LEGISLATIVE ELECTIONS (REF. A, PARA 5), OR AGGRAVATING INFLATION AND THEREBY ALIENATING THE CENTER AND DOING REAL DAMAGE TO ECONOMY.

MITTERRAND'S CAPACITY TO RESTRAIN INFLATION, IN TURN, COULD BE KEY PART OF HIS ABILITY TO OVERCOME EVEN LARGER PROBLEM -- LACK OF PUBLIC CONFIDENCE. CAPITAL FLIGHT WOULD BE LIKELY, AT LEAST SHORT-TERM, AND RESTRICTIVE EXCHANGE CONTROLS IN RESPONSE THERETO COULD ONLY FURTHER REDUCE CONFIDENCE AND AGGRAVATE PROBLEM. ON DOMESTIC SIDE, WOULD FRENCH BUSINESS BE WILLING, UNDER A LEFTIST PRESIDENT, TO CONTINUE HIGH

LEVEL OF PRODUCTIVE INVESTMENT NECESSARY TO SUSTAIN
FRENCH GROWTH, EMPLOYMENT AND GOVERNMENT REVENUES
NEEDED FOR WELFARE MEASURES? FINALLY, IF FRENCH
CAPITAL WERE TO REACT SHARPLY AND HASTILY TO MITTERRAND
VICTORY, LEFT WING OF MITTERRAND'S SUPPORTERS MIGHT
WELL PERCEIVE THIS AS SABOTAGE OF NEW PRESIDENT AND
PRESS MORE DRASTIC ACTION. KEY QUESTION, THEN, IS
HOW MUCH TIME BIG AND SMALL SAVERS WOULD GIVE NEW
GOVERNMENT TO DEMONSTRATE ITS CAPACITIES, OR INCAPACI-
TIES, BY ITS ACTS?

MITTERRAND'S ELECTION WOULD BRING CHANGES IN
FRANCE'S POSTURE ON INTERNATIONAL ECONOMIC ISSUES. ON
THE POSITIVE SIDE, HIS PROPOSAL OF REPLACING LONG-
TROUBLESOME EUROPEAN FARM-PRICE SUBSIDIES WITH DIRECT
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AID FOR FARMERS COULD LEAD TO SOLUTION OF A LONG-
STANDING EUROPEAN AND ATLANTIC PROBLEM. BUT HIS
IDEAS ON INTERNATIONAL MONETARY REFORM SEEM CLOSE TO
THOSE OF THE PRESENT FRENCH GOVERNMENT, AND THUS AT
SOME DISTANCE FROM U.S. ON NUMBER OF MAJOR ISSUES.
MOREOVER, HIS NATIONALIZATION PLANS WOULD AFFECT NOT
ONLY TWO U.S.-CONTROLLED INDUSTRIAL GROUPS -- ITT/FRANCE
AND HONEYWELL-BULL -- BUT A NUMBER OF FRENCH SUBSID-
IARIES OF AMERICAN INSURANCE COMPANIES AND PERHAPS
U.S. BANK BRANCHES HERE. ALTHOUGH DIRECT INVESTMENT

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LEGISLATION WOULD PROBABLY NOT CHANGE, EXISTING
FOREIGN-CONTROLLED FIRMS COULD BE SUBJECT TO GREATER
GOVERNMENT ATTENTION, AND ADMINISTRATION OF CONTROLS
ON NEW FOREIGN DIRECT INVESTMENT WOULD PROBABLY BECOME
MORE STRINGENT. IN THE TRADE AREA, WHILE EXPORT
PROMOTION FIGURES IN BOTH CANDIDATES' PLATFORMS,
MITTERRAND MIGHT BE MORE ZEALOUS IN ITS EXECUTION --

AND INSTITUTE IMPORT RESTRICTIONS AS WELL. HE ALSO SEEMS TO FAVOR BILATERAL DEALS WITH OIL PRODUCERS AS A PARTIAL ANSWER TO THE ENERGY PROBLEM.

3. GISCARD D'ESTAING. A LEFT-WING COMMENTATOR RECENTLY NOTED THAT "GISCARD NOW PROMISES MORE IN SOCIAL REFORM THAN EVEN THE TRADE UNIONS DARED ASK BEFORE." GISCARD, CONSERVATIVE BY INCLINATION, WITH CONSERVATIVE CONSTITUENCY, HAS INDEED PROPOSED A NUMBER OF ECONOMIC AND SOCIAL INNOVATIONS. HIS "PERSPECTIVES PRESIDENTIELLES" INCLUDE SUGGESTED OLD-AGE BENEFITS ONLY SLIGHTLY LESS AMBITIOUS THAN THOSE PROPOSED BY MITTERRAND, AS WELL AS BENEFITS TO WOMEN, FAMILIES, AND THOSE OUT-OF-WORK. PUBLIC TRANSPORTATION, HOUSING AND HOSPITALS ARE GIVEN PRIORITY OVER SUPER-HIGHWAYS AND TELEPHONES. GISCARD PROMISES TO RAISE LOWEST LEVELS OF INCOMES TWICE AS FAST AS THE HIGHEST, AND THEREBY BRING FRENCH INCOME DIFFERENTIALS WITHIN THE EC AVERAGE, ALTHOUGH, OUTSIDE THE PUBLIC SECTOR, IT IS NOT AT ALL CLEAR HOW HE MIGHT DO THIS. HE HAS EXPRESSED A WILLINGNESS TO SET A "MINIMUM LEVEL OF RESOURCES FOR ALL", POSSIBLY IMPLYING SOME FORM OF NEGATIVE INCOME TAX. GISCARD PROMISES TO REFORM VALUE-ADDED TAX (PROBABLY BY CUTTING RATES AND REDUCING THEIR NUMBER) AND OFFERS "BETTER PROTECTION OF SAVINGS", WITHOUT SAYING HOW. LIMITED OFFICIAL USE

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IN LABOR POLICY, HE SKIRTS ISSUES OF "AUTOGESTION" OR "PARTICIPATION" BY SUGGESTING SUCH JOB ENRICHMENT MEASURES AS REPLACEMENT OF ASSEMBLY LINE AND RIGID WORK SCHEDULES. FOLLOWING THE POPULAR TREND, GISCARD PROPOSES A GREATER DECENTRALIZATION OF GOVERNMENT ACTIVITIES AND RESPONSIBILITIES.

DESPITE POSITION AS FINANCE MINISTER, GISCARD HAS SAID SURPRISINGLY LITTLE ON HOW HE WOULD PAY FOR PROPOSED MEASURES, OTHER THAN TO NOTE, "THE BEST REFORMS ARE THOSE DONE WITHOUT SPENDING MONEY." EXPRESSING FAITH IN WORKINGS OF MARKET ECONOMY, HE ANNOUNCED FIRM OPPOSITION TO A PRICE FREEZE. HE HAS OFFERED, HOWEVER, NO NEW POLICIES TO CONTROL INFLATION.

IN INTERNATIONAL ECONOMIC AFFAIRS, GISCARD, WHO WAS MAJOR ARCHITECT AND DEFENDER OF FRENCH POLICIES UNDER POMPIDOU, CAN BE EXPECTED TO CONTINUE THOSE POLICIES LARGELY UNCHANGED. GISCARD IS KNOWN, HOWEVER, TO DISAPPROVE OF FOREIGN MINISTER JOBERT'S APPROACH TO INTERNATIONAL ASPECTS OF THE ENERGY

PROBLEM -- BOTH BILATERAL DEALS WITH ARAB OIL PRODUCERS
AND DECISION TO STAY OUT OF ENERGY COORDINATION GROUP.
HIS GOVERNMENT WOULD BE AT LEAST AS RECEPTIVE TO
PRIVATE FOREIGN INVESTMENT AS THAT OF PRESIDENT POMPIDOU
HAS BEEN SINCE 1970.

COMMENT: GISCARD'S SOCIAL REFORM MEASURES WERE
THE MOST TIMID AMONG THE THREE FIRST-ROUND CANDIDATES.

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GISCARD'S CAPITALIST FAITH IS CLEARLY OF FRENCH VARIETY -- LONG TOLERANT OF EXTENSIVE GOVERNMENT INTERVENTION -- AND HIS ORTHODOXY IS TINTED BY HIS SUPPORT OF PRESIDENT POMPIDOU'S CHOICE OF GROWTH AND, IF NECESSARY, MORE INFLATION RATHER THAN UNEMPLOYMENT. ALL THE SAME, MOST FRENCHMEN PROBABLY CHARACTERIZE GISCARD BY HIS COMMITMENT TO FREE ENTERPRISE SYSTEM, AND TO LARGE BANKS AND COMPANIES FORMING KEY PART OF IT. MITTERRAND HAS LABELED HIM "THE CANDIDATE OF THE RIGHT", AND, IN THE GENERAL ORIENTATION OF HIS ECONOMIC POLICIES, HE IS. IN THIS SENSE, HIS PROBLEMS WOULD BE MIRROR IMAGE OF MITTERRAND'S. WHILE HE WOULD GENERALLY HAVE CONFIDENCE OF FRENCH BUSINESS INTERESTS, KEY QUESTION IS WHETHER FRENCH LEFT, AND LABOR MOVEMENT IN PARTICULAR, WOULD ALLOW GISCARD SUFFICIENT TIME TO TRY TO IMPLEMENT HIS PROGRAMS FOR MORE EQUAL SHARING OF THE FRUITS OF FRENCH ECONOMIC GROWTH. WITH GISCARD IN ELYSEE, THERE WOULD BE STRONG POSSIBILITY OF SERIOUS LABOR UNREST, WHICH COULD AS WELL UNDO GISCARD'S VISION OF FRANCE'S FUTURE DEVELOPMENT, AS LACK OF CONFIDENCE OF BUSINESS AND MONEYED CLASSES COULD UNDO MITTERRAND'S.

IRWIN

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